CHAPTER 6: LOAN PURPOSES
7 CFR 3555.101

6.1 INTRODUCTION

SFHGLP loan funds can be used to acquire new or existing housing that will be the applicant's principal residence, and to pay costs associated with such a purchase. However, there are restrictions on the use of guaranteed loan funds. This section describes the purposes and restrictions and discusses when supplemental loans are permitted. The lender is responsible for ensuring that loan funds are used only for eligible purposes.

6.2 ELIGIBLE LOAN PURPOSES

Guaranteed loan funds must be used to acquire a new or existing dwelling to be used as a permanent residence and may be used to pay costs associated with such an acquisition. Residential properties must be residential in use, character and appearance. Loan funds may be used for the following purposes:

- Acquiring a site with a new or existing dwelling;
- Repairs and rehabilitation when associated with the purchase of an existing dwelling;
- Reasonable and customary expenses associated with purchasing a dwelling; and
- Refinancing under specific situations.

A. Acquiring a Site and Dwelling

Loan funds may be used to acquire a site with a new or existing dwelling that meets the Agency's site, dwelling, and environmental requirements, or will meet the Agency's requirements once planned rehabilitation or repair work is completed. These requirements are addressed in Chapter 12 of this Handbook.

B. Repairs and Rehabilitation

If repairs or rehabilitation are involved, the lender must not request that the loan guarantee be issued until all work is complete. The exception to this rule is completion of exterior work or minor interior work. Repairs and rehabilitation are addressed in Chapter 12 of this Handbook.

C. Reasonable and Customary Expenses Associated With Purchasing a Dwelling

The program allows loan funds to be used for expenses associated with purchasing a dwelling as long as they are reasonable and customary for the area. These expenses may include the following items:

- **Loan Acquisition Expenses**. These include legal, architectural, and engineering fees, title clearance costs, and insurance costs. The guarantee fee and fees for appraisal, surveying, tax monitoring, expenses for homeownership education counseling, and other technical services associated with obtaining the loan may also be included. Paragraph 16.4 B of Chapter 16 of this Handbook provides information on the guarantee fee structure.

- **Reasonable Lender Fees**. Reasonable lender fees may include an origination fee and other fees and charges. Lender fees cannot exceed those charged other applicants by the lender for similar transactions such as FHA-insured or VA-guaranteed first mortgage loans. Payment of other fees, charges, or commissions, such as finder's fees or placement fees for the referral of a prospective applicant to the lender or administrative fees charged to the buyer by the realtor is prohibited. Discount points as described in Paragraph 6.3 of this Chapter. Lender fees combined with closing costs may not exceed three percent of the total loan amount, unless further flexibility is provided through guidance published by the Consumer Financial Protection Bureau (CFPB)'s Ability to Repay and Qualified Mortgage (ATR/AQM) rule. The SFHGLP up-front guarantee and annual fee is not included in the three percent lender fees calculation.

- **Closing Costs**. Closing costs that are reasonable and customary for the area can be paid for with loan funds. Closing costs cannot exceed those charged other applicants by the lender for similar transactions such as FHA-insured or VA-guaranteed first mortgage loans. If the lender does not participate in such programs, the loan closing costs may not exceed those charged other applicants by the lender for a similar program that requires conventional mortgage insurance or a guarantee. There is a six percent limit on the amount of the seller's contribution or other interested party, under the SFHGLP. The amount of seller contribution, or other interested party, must represent an eligible loan purpose in accordance with this Paragraph. Closings costs and/or prepaid items paid by the lender through premium pricing are not included in the seller contribution limitation. In addition, closing costs, including lender fees, may not exceed three percent of the total loan amount as described in this section under "Reasonable Lender Fees." The SFHGLP up-front guarantee fee is not included in the lender fees calculation.

- **Design Features or Equipment for Physical Disabilities.** Special design features or permanently installed equipment to accommodate a household member who has a physical disability is an eligible loan purpose. The purchase of personal items for such individuals, such as wheelchairs, is not an eligible loan purpose.

- **Connection, Assessment and Installment Fees.** Reasonable and customary connection fees, assessments, or the pro rata installment costs for utilities such as water, sewer, electricity, and gas for which the buyer is liable are eligible costs.

- **Taxes and Escrow Accounts**. A pro rata share of real estate taxes that are due and payable on the property at the time of closing and funds for the establishment of escrow accounts for real estate taxes, hazard and flood insurance premiums, and related costs are eligible costs.

- **Essential Household Equipment.** Loan funds can be used to pay for essential household equipment such as wall-to-wall carpeting, ovens, ranges, refrigerators, washers, dryers, and heating and cooling equipment as long as the equipment is conveyed with the dwelling, and such items are normally sold with dwellings in the area.

- **Energy Efficiency Measures**. Loan funds can be used for purchase and installation of measures to promote energy efficiency, such as insulation, double-paned glass, and solar panels.

- **Broadband**. Loan funds may be used to install fixed broadband service to the household, as long as the equipment is conveyed with the dwelling.

- **Site Preparation.** Site preparation activities, including grading, foundation plantings, seeding or sod installation, trees, walks, fences, and driveways, are eligible costs.

D. Refinance [7 CFR 3555.101(d)]

Refinances under the SFHGLP are permissible under the following conditions.

1. Construction Financing

Refinancing is allowed for “take out” purposes when financing to construct a new dwelling, or to improve an existing dwelling. The guarantee fee structure for this type of financing will be considered a purchase loan.

- This type of transaction is considered a two-closing transaction.

- This transaction utilizes two separate loan closings with two separate sets of legal documents.
- A modification may not be used to update the original note. A new note will be signed by the borrowers.
- The first transaction is to obtain the interim construction financing. The second closing obtains the permanent financing when improvements are completed.
- The lender is responsible for assuring that all costs involved in both transactions represent an eligible loan purpose in accordance with Section 6.2 of this Chapter. Documentation could represent a draw and disbursement ledger validating the builder's price to build, cost of the land (if applicable), closing costs and any out-of-pocket expenses (supported by canceled checks, paid receipts for construction costs) paid by the applicants.
- The construction period is limited to no greater than one 12-month period. The 12-month period must have occurred directly prior to permanent financing.
- Credit document standard guidelines apply.
- New construction documentation (certified plans and specifications, inspections and warranty) as outlined in Chapter 12 applies.
- The Loan Note Guarantee will be issued on the permanent financing, once construction is complete.

2. Site Without a Dwelling

In the case of loans for a building site without a dwelling, a refinance is permitted if:

- The debt to be refinanced was incurred for the sole purpose of purchasing the site;
- The applicant is unable to acquire adequate housing without a refinance;
- An appropriate dwelling will be constructed on the site prior to issuance of the loan note guarantee; and
- The lender is responsible for assuring that all costs involved in the construction financing represent an eligible loan purpose in accordance with Section 6.2 of this Chapter. Documentation could represent a draw and disbursement ledger validating the builder's price to build, cost of the land, closing costs and any out-

of-pocket expenses (supported by canceled checks, paid receipts for construction costs) paid by the applicants.

- The construction period is limited to one 12-month period. The 12-month period must have occurred directly prior to permanent financing.

- Credit document standard guidelines apply.

- New construction documentation (certified plans and specifications, inspections and warranty) as outlined in Chapter 12 applies.

This transaction will represent a two-closing transaction with two sets of legal documents. A modification may not be used to update the original note.

The guarantee fee structure for this type of financing will be considered a purchase transaction loan.

See Section 7 of Chapter 12 for combination construction to permanent financing involving a single-closing transaction.

3. Existing Section 502 Guaranteed Loans

The intent of the refinance feature of the SFHGLP is to give existing SFHGLP borrowers with satisfactory payment histories the opportunity to benefit from a lower interest rate and increase their ability to be successful homeowners. The interest rate of the new loan to be financed must be 100 basis points below the rate of the existing loan to be refinanced. Applicants must meet all existing eligibility requirements. An approved lender may refinance an existing guaranteed borrower with a Section 502 Guaranteed loan. Funds will be made available on a first-come, first-serve basis for refinance requests meeting application and approval criteria. The refinance guarantee fee structure will be applicable to this type of financing. Attachment 6A provides a brief reference to the following refinance options available in this Chapter.

Two options for refinancing are available:

Non-streamlined refinance. The non-streamlined refinance option requires an appraisal. Lenders offering the non-streamlined refinance option may include in the loan the principal and interest of the existing loan, closing costs, lender fees and the guarantee fee amount to the extent sufficient equity in the property exists, as determined by an appraisal. The appraised value may be exceeded only to the amount financing represents the guarantee fee. The Guaranteed Underwriting System (GUS) may be utilized when requesting a non-streamlined refinance.

Streamlined refinance. Lenders may offer a streamlined refinance without obtaining a new appraisal. The refinance loan amount may not exceed the original loan amount (i.e. the original purchase loan amount will establish the maximum loan amount of the refinance transaction). All other costs, documentation and underwriting requirements remain consistent with a purchase guarantee, unless otherwise noted in this Section. With this option, the lender will refinance the balance of the existing Section 502 Guaranteed loan. The balance may represent the outstanding principal balance, current interest charges due along with a reasonable and customary fee for reconveyance of the existing USDA loan and any amount of the upfront guarantee fee to be financed into the loan. Delinquent interest, closing costs or lender fees may not be financed into the new loan with this option. This option is not available for Section 502 Direct loans that have received any payment subsidy during the term of the original loan. GUS may be utilized when requesting a streamlined refinance. The Agency should give applicants with existing SFHGLP loans that are in good standing every consideration when applying for a SFHGLP refinance loan. SFHGLP refinance loans may not be used as a loss mitigation measure for loans that are presently not performing or for borrowers who are not remaining current on their existing SFHGLP loan. Delinquent SFHGLP loans should be reviewed and evaluated using applicable loan servicing and loss mitigation guidelines.

a. Loan Terms and Conditions

- The term of the loan must be 30 years.
- The interest rate of the new loan must be a fixed rate. The rate of the new loan must be at least 100 basis points below the original rate of the loan refinanced.
- Buydown accounts are not permitted.
- The loan security must include the same property as the original loan. The security property must be owned and occupied by the applicants as their principal residence.
- Total adjusted income for the household cannot exceed the moderate level for the area.
- An approved SFHGLP lender must make the loan.
- The maximum loan amount for a non-streamlined refinance option cannot exceed the balance of the loan being refinanced, reasonable and customary closing costs, including funds necessary to establish a new tax and insurance escrow accounts up to the amount of the market value established by the appraisal, plus the guarantee fee.

- The maximum loan amount for the stream-lined refinance option cannot exceed the original amount of the loan to be refinanced. This option includes financing the principal amount of the loan be refinanced, current accrued interest, plus a reasonable customary reconveyance fee plus the guarantee fee up to the original principal of the amount of loan to be refinanced.

- No new appraisal will be required for streamlined transactions as described in this section.

- A new and current market value appraisal is required when the non-streamlined refinance option is utilized.

- Subordinate financing such as home equity seconds and down payment assistance "silent" seconds cannot be included in the new loan amount. The SFHGLP <u>may not</u> be used to refinance a leveraged loan from a non-Rural Development source that was closed simultaneously with a Section 502 Direct Loan. Any existing secondary financing must be subordinate to the new first lien.

- Applicants are not eligible to receive "cash out" from the refinance transaction. However, applicants may receive reimbursement from loan proceeds at settlement for their personal funds advanced for eligible loan purposes that are part of the refinance transaction, such as an appraisal fee or credit report fee. At loan closing, a nominal amount of "cash out" to the applicants may occasionally result due to final escrow and interest calculations.

- Unpaid fees, such as late fees due the servicer, are not eligible to be included in the new loan amount.

- SFHGLP refinance loans are permissible for properties in areas that have been determined to be non-rural since the existing loan was made.

- As part of the refinance transaction, additional borrowers may be added to the new SFHGLP loan. Existing borrowers may be deleted from the current loan. All applicants that will be a party to the promissory note for the new loan must meet all eligibility requirements. At least one of the original borrowers must be retained to qualify as a refinance transaction.

- To be eligible for a refinance, the original loan must have closed at least 12 months prior to the Agency's receipt of a conditional commitment request for refinance.

- To be eligible for a refinance, the existing loan must have been current for the 180-day period prior to the Agency's receipt of a conditional commitment request to refinance.

b. Loan Application Documentation

The following items must be addressed or documented in the lender's loan file in order for the application to be considered complete:

- Signed copy of the loan application.

- Current credit report.

- Any late mortgage payments within the past 36 months on the existing SFHGLP loan must be addressed by the lender and taken into consideration in the underwriting decision.

- Lender verification of applicant's current employment and income.

- Lender verification that the total adjusted income for the household does not exceed the current moderate income level established for the area.

- Lender's underwriting analysis, including applicant's qualifying ratios for the loan being refinanced.

- The monthly housing expense to income ratio may not exceed 29 percent and the total debt to income ratio may not exceed 41 percent. However, lenders may request a waiver of these ratio requirements with documentation of strong compensating factors in accordance with Chapter 11 of this Handbook. A satisfactory payment history for the existing mortgage is considered a strong compensating factor.

- Applicants and lenders will sign *Form RD 3555-21, "Request for Single Family Housing Loan Guarantee."*

- A complete Uniform Residential Appraisal Report (URAR) will be required in cases as defined in this section. This is considered a non-streamlined refinance option.

- Property inspections are not necessary. Although Rural Development does not require repairs to be completed for refinance transactions, the lender may require completion of repairs as a condition of loan approval. Expenses related to property inspections and repairs may not be financed into the new loan amount.

c. Submission Process

- Lender. After underwriting and approval of the loan, the lender will submit the loan application package for Agency review in accordance with Chapter 15 of this Handbook. The Agency will review applications to determine if all program requirements have been met.

- Agency. Funding for the refinance type will be requested by the Agency or national office through the usual channels outlined in Chapter 14 of this Handbook.

- Use of SFHGLP funds for the sole purpose of refinancing an existing 502 guaranteed loan is considered a servicing action and a categorical exclusion under RD Instruction 1940-G.

- The completion of *Form RD 1940-22, "Environmental Checklist for Categorical Exclusions"* will typically not be required as refinance transactions will not likely have the potential to adversely affect environmentally sensitive land uses or resources. However, in extraordinary circumstances, the Agency loan approval official may be aware of an environmentally sensitive situation, such as reports of chemical spills in the area or hazardous material waste sites that have been developed in the community, that may impact the application and require further analysis as prescribed in RD Instruction 1940-G.

- The Agency will establish an application in GLS. Both streamlined and non-streamlined refinance transactions developed with the assistance of GUS will be uploaded to GLS from the USDA Administration page in GUS.

- The Agency will code refinances with the appropriate type of assistance code (TOA).

- Streamlined refinances will utilize the original loan amount established in GLS. The maximum loan amount cannot exceed the original purchase loan.

- Following Rural Development approval, funds will be obligated in GLS and a conditional commitment issued.

d. Closing Costs and Lender Fees

- The lender may establish charges and fees for the refinance loan, provided they are the same as those they charge other applicants for similar types of transactions. Lenders and the Agency should make every effort to ensure that applicants are not being charged excessive fees as part of the new loan. Discount points are not eligible to be financed, except for low-income applicants. In such cases, discount points financed will not exceed two percentage points of the loan amount and must represent a reduction to the interest rate.

e. Up-Front Guarantee Fee

- The guarantee fee for SFHGLP refinances will be established by the Agency. The entire guarantee fee may be financed into the SFHGLP refinance loan as described above depending on the refinance feature (non-streamlined vs. streamlined). The amount of the up-front fee will be published in Exhibit K, of RD Instruction 440.1, available in any Rural Development office or on the Rural Development website as follows: http://www.rurdev.usda.gov/rd_instructions.html.

f. Annual Fee

- An annual fee may be charged by the Agency for refinance transactions. The amount of annual fee will be established by the Agency. Refer to Exhibit K of RD Instruction 440.1, available in any Rural Development office or on the Rural Development website as follows: http://www.rurdev.usda.gov/rd_instructions.html.

g. Loan Note Guarantee Issuance Requirements

- Once the lender has closed the loan, closing documentation should be submitted to the Agency. Provided the lender's loan closing documentation is adequate, and the loan documentation represents the loan was closed in accordance with the terms of the conditional commitment, a Loan Note Guarantee will be issued. The Agency will process loan closings for SFHGLP refinance loans using the same procedures used for SFHGLP purchase loans. Once the Agency's loan closing has processed and the new Loan Note Guarantee has been issued, the Agency should notify the Finance Office to terminate the original guarantee due to the loan being refinanced through the SFHGLP. Notifications should be made to the Finance Office, Guaranteed Loan Branch, Attn: FC-350 by Fax at (314) 457-4279 or by email at RD.DCFO.GLB@stl.usda.gov.

h. Guaranteed Loan System (GLS) Reporting

- All SFHGLP refinance loans should be coded with an accurate type of assistance code as referenced in Chapter 14 of this Handbook.

i. Funding Limitations

- There will be no limit placed on the number of refinance loans made from the allocation at this time. Refer to Chapter 14 of this Handbook for additional information regarding funding.

j. Refinance Product Matrix

- Attachment 6-A of this Chapter outlines the refinance features of the SFHGLP. General eligibility, approval and delivery criteria are noted.

4. Existing Section 502 Direct Loans

When the Agency has determined that a 502 direct borrower may be eligible to refinance with private credit, the option to attempt a refinance with a SFHGLP loan may be offered to the borrower. It will be the option of the borrower to contact a SFHGLP lender or pursue other refinance credit. If the borrower elects to refinance with a SFHGLP loan, the same process described above for Section 502 Guaranteed loans will apply, with the following exceptions:

a. Section 502 Leveraged Loans

- The SFHGLP may not be used to refinance Leveraged Loans. Leveraged Loans are loans from a non-Rural Development source closed simultaneously with a 502 direct loan. The private sector lender takes a first lien; Rural Development takes a second lien on the same property. Because the first lien is not funded or guaranteed by Rural Development, it is statutorily prohibited to refinance Leveraged Loans.

b. Recapture

- As part of the direct loan refinance, arrangements must be made to either pay off or defer repayment of any subsidy recapture due. Any recapture amount owed as part of the 502 direct loan payoff may be included into the amount being financed with the SFHGLP loan subject to maximum loan of refinance. Alternatively, any

502 direct recapture amount owed at the time of refinance may be deferred if the recapture amount takes a lien position subordinate to the new SFHGLP loan. A 25 percent discount on recapture may be offered if the customer does not defer recapture or includes the recapture amount being refinanced with the SFHGLP loans.

E. Supplemental Loans

When an existing SFHGLP loan is being assumed, a supplemental loan can be provided if funds are needed for seller equity, closing costs, or essential repairs. See Chapter 17 of this Handbook for a detailed discussion of transfers and assumptions in the SFHGLP.

6.3 PROHIBITED LOAN PURPOSES

Guaranteed loan funds cannot be used for any of the following purposes.

- **Loan Discount Points**. Loan discount points other than to reduce the effective interest rate cannot be financed as part of the loan. However, low-income applicants may finance discount points if they are reasonable and customary for the area and cannot be more than those charged other applicants for comparable transactions. Permissible discount points financed may not exceed two percentage points of the loan amount for a non-streamlined refinance. Any loan discount points and loan origination fees must be itemized separately on the settlement statement so that the Agency can accurately identify the amount of the loan used for loan discount points. Loan discount points representing fees other than to reduce the effective interest rate, such as to compensate for a low credit score or low loan amount are ineligible. The lender must begin with an eligible interest rate prior to reducing the effective interest rate.

- **Income Producing Property**. Purchase or improvement of income-producing land or buildings that will be used principally for income producing purposes is not allowed. Vacant land or properties used primarily for agricultural, farming or commercial enterprise are ineligible. A minimal income-producing activity, such as maintaining a garden that generates a small amount of additional income, does not violate this requirement. A qualified property must be predominantly residential in use, character and appearance. Refer to Chapter 12 of this Handbook for additional information on qualifying a property.

- **Manufactured Homes.** Purchase of existing manufactured homes is not permitted, unless it is a refinance of an existing Rural Development Section 502 direct loan or guarantee, as provided in Section 2 of Chapter 13 of this Handbook.

- **Lease Payments.** Payment on any lease agreement associated with the proposed real estate transaction is prohibited.

- **Seller contributions**. Seller or other interested party contributions towards closing costs in excess of six percentage points are prohibited. Closing costs and/or prepaid items paid by the lender by premium pricing are not included in the seller contribution limitation. Fees towards the applicant's cost to close such as real estate commission or other typical fees paid by the seller or other interested party under local, state law, or local custom are not considered in the maximum contribution calculation.

- **Closing costs.** Closing costs, including lender fees, may not exceed three percent of the total loan amount, unless flexibility is provided through guidance published by the CFPB's ATR/AQM rule. The SFHGLP up-front guarantee fee and annual fee is not included in the three percent lender fee calculation.

6.4 AGENCY REVIEW OF LOAN PURPOSES

The Agency will review the purposes for which guaranteed loan funds are being used before issuing a conditional commitment of loan guarantee. If the Agency discovers loan funds are to be used for an ineligible purpose, the Agency will contact the lender and attempt to resolve the situation prior to making a determination on the loan guarantee. Loan purposes also will be reviewed during the Agency's on-site monitoring process to ensure that the lender has an accurate understanding of allowable and prohibited loan purposes. See Chapter 20 of this Handbook for a detailed discussion of how the Agency handles loss claims for loan funds that were used for an ineligible purpose.

Attachment 6-A: Refinancing Rural Development Mortgages - *This summary is intended for reference.*

		Refinance Type ***Guaranteed Loan to Guaranteed Loan***	**Refinance Type** ***Direct Loan to Guaranteed Loan***
Lender Eligibility	**Eligible Lenders**	▪ Any lender who has been approved by Rural Development and holds an active lender agreement (Form RD 3555-16 or earlier version). ▪ Approved lenders are responsible for loan underwriting and will be issued a Conditional Commitment if all eligibility requirements are met. ▪ Approved lenders may utilize the services of an agent for processing refinance loans.	
Types of Refinancing	**Processing Types**	▪ Streamlined refinance • No appraisal; principal and current interest charges due, reasonable and customary reconveyance fee plus the upfront guarantee fee • Limited to original purchase loan amount ▪ Non-streamlined refinance	▪ Streamlined refinance ▪ Payment subsidy never received • No appraisal; principal and current interest charges due, reasonable and customary reconveyance fee plus the upfront guarantee fee • Limited to original purchase loan amount ▪ Non-streamlined refinance

Eligibility and Underwriting	**Eligible <u>Existing</u> Loan**	▪ Loan must have a Loan Note Guarantee issued to an approved lender. (Form RD 3555-17 or earlier version) ▪ Loan must have closed at least twelve months prior to the Agency's receipt of a conditional commitment request for refinance. ▪ Loan has been current for the 180-day period prior to the Agency's receipt of a conditional commitment request for refinance. ▪ Loan must be fully documented, underwritten and originated in compliance with 7 CFR 3555 and this Handbook.	▪ Loan must be an existing Section 502 Direct loan. ▪ Loan must have closed at least twelve months prior to the Agency's receipt of a conditional commitment request for refinance. ▪ Loan has been current for the 180-day period prior to the Agency's receipt of a conditional commitment request for refinance. ▪ Loan must be fully documented, underwritten and originated in compliance with 7 CFR 3555 and this Handbook. <u>Ineligible loans</u>: The SFHGLP may not be used to refinance leveraged loans from a non-USDA source that was originally closed simultaneously with a Section 502 Direct loan.
Eligibility and Underwriting	**Applicant Eligibility**	▪ All applicants that will be a party to the promissory note for the new loan must meet all applicable Agency eligibility regulations to qualify for a refinance loan. ▪ As part of the refinance transaction, additional borrowers may be added to the new SFHGLP loan. ▪ Existing borrowers may be deleted from the current loan. At least one original borrower must be retained on the new refinance loan. ▪ Any late mortgage payments within the past 36 months on the existing USDA loan must be analyzed and addressed by the lender to determine if any late payments were a disregard for financial obligations, an inability to manage debt, or factors beyond the control of the borrower when considering the underwriting decision. All scheduled payments over the most recent 180-day period, prior to the Agency's receipt of the conditional commitment request, must have been paid as agreed.	

	Loan Purpose and Limitations	▪ **Non-streamlined refinance**: The maximum loan amount cannot exceed the present fair market value as supported by an appraisal. A portion of or the full amount of the upfront guarantee fee may be financed above the appraised value. The base loan amount may include the balance (principal and interest) of the existing loan to be refinanced, reasonable and customary closing costs, and lender fees, including funds to establish a new tax and insurance escrow account in conjunction with the new loan request.	▪ **Non-streamlined refinance**: The maximum loan amount cannot exceed the present fair market value as supported by an appraisal. A portion of or the full amount of the upfront guarantee fee may be financed above the appraised value. The base loan amount may include the balance (principal and interest) of the existing loan to be refinanced, reasonable and customary closing costs, subsidy recapture (if applicable) and lender fees, including funds to establish a new tax and insurance escrow account in conjunction with the new loan request. ▪ **Subsidy Recapture.** Any recapture amount due may be financed as part of the loan balance, or it may be deferred if the lien position is subordinate to the new SFHGLP loan. A 25% discount will be offered if the borrower does not defer recapture.
Eligibility and Underwriting	**Loan Purpose and Limitations. Cont'd**	▪ **Streamlined refinance**: The refinance loan amount cannot exceed the original purchase loan amount. The refinance loan amount may represent the outstanding principal balance (including current interest plus a reasonable and customary reconveyance fee) of the existing loan to be refinanced, <u>plus the upfront guarantee fee.</u>	▪ **Streamlined refinance**: Only available for Section 502 Direct loans that have not received payment subsidy. The refinance loan amount cannot exceed the original purchase loan amount. The refinance loan amount may represent the outstanding principal balance (including current interest plus a reasonable and customary reconveyance fee) of the existing loan to be refinanced, <u>plus the upfront guarantee fee</u>.

Eligibility and Underwriting	**Loan Purpose and Limitations. Cont'd**	▪ Cash out refinance transactions are not permitted. ▪ Subordinate financing, such as home equity seconds and down payment assistance "silent" seconds, cannot be included in the new loan amount. Any existing secondary financing must be subordinate to the new first lien. ▪ Applicants may receive reimbursement from loan proceeds at settlement for their personal funds advanced for eligible loan purposes that are part of the refinance transaction, such as an appraisal fee or credit report fee (non-streamlined transactions only). ▪ Nominal "cash out" to the applicants may occur at closing due to final escrow and interest calculations. ▪ Unpaid fees, such as late fees due the servicer, are not eligible to be included in the new loan amount. ▪ There is no limit placed on the number of refinance loans made to an existing SFHGLP borrower, however the loan to be refinanced must have closed at least twelve months prior to the Agency's receipt of a conditional commitment request for refinance.	
	Upfront Guarantee Fee/Annual Fee	▪ Refinance loans are subject to the prevailing upfront guarantee fee and annual fee for the SFHGLP. ▪ **Non-streamlined refinance:** A portion of or the entire upfront guarantee fee may be financed into the loan above the appraised value. ▪ **Streamlined refinance:** The refinance loan amount cannot exceed the original purchase loan amount. The refinance loan amount may represent the outstanding principal balance (including current interest plus a reasonable and customary reconveyance fee) of the existing loan to be refinanced, <u>plus the upfront guarantee fee</u>.	▪ Refinance loans are subject to the prevailing upfront guarantee fee and annual fee for the SFHGLP. ▪ **Non-streamlined refinance:** A portion of or the entire upfront guarantee fee may be financed into the loan above the appraised value**.** ▪ **Streamlined refinance:** Only available for Section 502 Direct loans that have not received payment subsidy. The refinance loan amount cannot exceed the original purchase loan amount. The refinance loan amount may represent the outstanding principal balance (including current interest plus a reasonable and customary reconveyance fee) of the existing loan to be refinanced, <u>plus the upfront guarantee fee</u>.

Eligibility and Underwriting	**Repayment Ratios**	▪ The monthly housing expense to income ratio may not exceed 29 percent of repayment income. ▪ The total debt ratio may not exceed 41 percent of repayment income. ▪ Lenders may request a waiver of Rural Development when strong compensating factors are documented. A satisfactory payment history for the existing mortgage is considered a strong compensating factor.
	Term	▪ Term of the new loan will be a 30 year fully amortized fixed rate mortgage.
	Interest Rate	▪ Interest rate of the new loan must be a fixed rate. ▪ The interest rate must be 100 basis points (1%) lower than the existing loan to be refinanced. ▪ The interest rate of the new loan is not subject to Section 7.3 of Chapter 7 of this Handbook. ▪ Buy down accounts are not permitted.
	Household Income	▪ Total adjusted income for the household cannot exceed the moderate level for the area as established in Appendix 5 of this Handbook.
	Security	▪ Loan security must include the same property as the original loan. ▪ The security property must be owned and occupied by the applicants as their principal residence.
	Rural and Non-Rural Areas	▪ SFHGLP refinance loans are permissible for properties in areas that have been determined to be non-rural since the existing loan was made.

Eligibility and Underwriting	**Property Valuation**	▪ **Non-streamlined refinance:** The value of the new mortgage loan request must be supported by a new appraisal. The loan amount cannot exceed the present market value plus the upfront guarantee fee. The new loan amount can include closing costs or lender fees when supported by market value. ▪ **Streamlined refinance:** The new mortgage loan request can be supported by the original appraisal report obtained in connection with the existing mortgage. The loan amount cannot exceed the original purchase loan amount. The refinance loan may include the outstanding principal balance (including current interest and a reasonable/customary reconveyance fee) of the existing loan refinanced plus the upfront guarantee fee.	▪ **Non-streamlined refinance:** The value of the new mortgage loan request must be supported by a new appraisal. The loan amount cannot exceed the present market value plus the upfront guarantee fee. The new loan amount can include closing costs or lender fees when supported by market value. ▪ **Streamlined refinance:** Ineligible for this transaction when any payment subsidy has been received. The new mortgage loan request can be supported by the original appraisal report obtained in connection with the existing mortgage. The loan amount cannot exceed the original purchase loan amount. The refinance loan may include the outstanding principal balance (including current interest and a reasonable/customary reconveyance fee) of the existing loan refinanced plus the upfront guarantee fee.

	Inspections	▪ No inspections or repairs are required by Rural Development. ▪ Lender may require inspections or repairs. ▪ Expenses related to inspections or repairs may not be financed.
	Processing Requirements	▪ The lender will process the refinancing loan package in accordance with 7 CFR 3555 and this Handbook.

Eligibility and Underwriting	**Closing Costs and Lender Fees**	▪ The lender may establish charges and fees for the refinance loan, provided they are the same as those they charge other applicants for similar types of transactions – such as Federal Housing Administration (FHA) or Veterans Affairs (VA). ▪ Examples of reasonable and customary fees and charges: • actual cost of the appraisal, inspection or credit reports; • imposed verification charges; • title examination and title insurance fees; • attorney fees; • settlement and recording and/or courier/wire/notary fees; • real estate taxes for establishing an escrow; • test or treatment fees; • document preparation fees (if prepared by a third party); and • origination fee. ▪ Lenders and the Agency should make every effort to ensure that applicants are not charged excessive fees as part of the new loan. ▪ Discount points may be financed in connection with the new loan request when the existing borrower's adjusted household income is at or below the low income limits, as determined by Appendix 5 of this Handbook. Also see: http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do. Select *Guaranteed* from the navigation menu under *Income Limits.* ▪ Permissible discount points financed in accordance with this Chapter will not exceed two percentage points of the loan amount for a non-streamlined refinance. Financed discount points must be used to permanently reduce the interest rate.

Eligibility and Underwriting	**Use of the Guaranteed Underwriting System (GUS)**	▪ **Non-streamlined refinance:** loans may be originated with the assistance of GUS. ▪ **Streamlined refinance:** loans may be originated with the assistance of GUS. ▪ Reduced documentation may be submitted for loans receiving an ACCEPT recommendation in GUS. Lenders are required to review the GUS Underwriting Findings Report for a detailed list of required documentation as quality control messages can flag additional requirements. An abbreviated file submission includes: • An appraisal report. • FEMA Form 086-0-32, “Standard Flood Hazard Determination Form.” • Form RD 3555-21, “Request for Single Family Housing Loan Guarantee.” The form should be executed by the lender and borrower(s). • Income calculation worksheet for household eligibility income and repayment income. • Copy of the final GUS Underwriting Findings Report.

	Document Processing Requirements	▪ The lender will process the refinance loan package in accordance with 7 CFR 3555 and this Handbook. ▪ Form RD 3555-21, "Request for Single Family Housing Loan Guarantee" must be completed and executed by the borrower and the lender and accompany the commitment request. Rural Development accepts a fax, scan or photocopy of this executed form. The preferred method of delivery is electronic by use of general e-mail boxes available in all states. Refer to the USDA LINC Training and Resource Library under loan origination for a complete state list of e-mail addresses at https://usdalinc.sc.egov.usda.gov/RHShome.do ▪ Full documentation file as follows: • Fully completed and executed mortgage loan application. • Evidence of a qualified alien, as applicable, with the addition of new borrowers. • Current credit report and verification of debt. • Income documentation of household income. • Evidence of the lender's underwriting analysis addressing repayment ability, credit worthiness and security value. • Evidence of the current market value when the refinance type is non-streamlined refinance. ▪ Submit the fully underwritten file to Rural Development requesting a "Conditional Commitment for Loan Note Guarantee."

Post Closing Delivery	**Obtaining the Loan Note Guarantee**	▪ Submit closing documents and the guarantee fee to the Agency in accordance with Chapter 16 of this Handbook. The preferred method of delivery is electronic by use of general e-mail boxes available in all states. Refer to the USDA LINC Training and Resource Library under loan origination for a complete state list of e-mail addresses at https://usdalinc.sc.egov.usda.gov/RHShome.do ▪ If the provided documentation represents the loan was closed in accordance with the terms of the "Conditional Commitment for Loan Note Guarantee," a Loan Note Guarantee will be issued. ▪ The Agency will process loan closings for SFHGLP refinance loans using the same procedures used for SFHGLP purchase loans.